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No.

In the

Supreme Court of the United States

OCTOBER TERM, 1986

JOHN C. MEEHAN,

Petitioner,

vs.

PPG INDUSTRIES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED

Petitioner is a plumbing salesman who conceived an idea which he embodied in a written description, drawings and a market analysis (hereinafter "Method and Apparatus"). He sold the entire right, title and interest in his "Method and Apparatus" to a predecessor of respondent for periodic variable payments based upon net sales of respondent attributable to his idea. The written sales agreement conveyed a sole right in buyer to file for patents throughout the world, the decision to file being determinable only by buyer. The duration of the agreement was for a period of time not to exceed the life of any patent or patents granted to buyer on the "Method and Apparatus", or for ten years if no patent was granted. Great Britain, United States and Canada granted patents to buyer. The United States patent expired on January 4, 1983, and the Canadian patent expired on December 29, 1984. Respondent has refused to make payments for the period January 4, 1983 until December 19, 1984.

The questions presented are as follows:

1. Whether the Supreme Court *Aronson* case and the *Warner-Lambert* case (CA 2) each require enforcement of an assignment contract in which seller assigns all right, title and interest in an unpatented trade secret for periodic payments measured by a percentage of net sales of purchaser's use of the trade secret, the payments extending to the last to expire of patents which purchaser filed and obtained and which only purchaser had the sole right to file and obtain?

2. Whether the court below erred in applying the Supreme Court *Brulotte* case and in holding that a contract of sale of all right, title and interest in petitioner's trade secret can be subsequently converted into a sale of patent rights, and subject to federal patent policy, when only purchaser-respondent PPG had the right to file for and to obtain patents in its sole judgment and discretion?

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner John C. Meehan respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Seventh Circuit entered in this proceeding on September 26, 1986.

OPINIONS BELOW

The opinion of the court of appeals is reported at 802 F.2d 881 (1986). It appears in the Appendix to this petition at 1a et seq. The opinion of the district court is reported at ..... F. Supp. .....; 227 USPQ 243 (D.Ct. N.D. Ill. 1985). It appears in the Appendix to this petition at 11a et seq.

JURISDICTION

The judgment of the court of appeals was entered September 26, 1986. This petition is being filed within 90 days of that date. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

The statutes involved are 28 U.S.C. §1254(1), 28 U.S.C. §1332 and §118 and §154 of the patent laws found in 35 U.S.C. §1 et seq.

STATEMENT OF THE CASE

Petitioner Meehan brought this breach of contract action in August, 1984 because respondent PPG stopped making payments required by the contract.* Each party brought a motion for summary judgment. Both parties agree that the terms of the contract require payments by PPG for the period January 4, 1983 through December 19, 1984. PPG acquired ownership of Meehan's unpatented trade secret by the terms of the contract. The court below, and respondent, claim that respondent's later filing for and obtaining patents triggered the implementation of federal patent policy which denied to Meehan payments for the above period for his prior sale of his trade secret.

In early 1963, petitioner Meehan conceived an idea for packaging and dispensing a chemical mixture which, when added to hydrocarbon fuel, prevented ice formation and bacterial build-up in internal combustion engines (hereinafter referred to interchangably as "Trade Secret" and "Method and Apparatus"). Meehan's conception was intended primarily for aircraft to prevent "flame-out" of aircraft engines.

During the year 1963 Meehan attempted to interest various companies in manufacturing and marketing his "Method and Apparatus". Before disclosure to any com-

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* Jurisdiction of the United States District Court was based on 28 U.S.C. 1332.

pany, he required that company to execute an agreement to hold the disclosure in confidence.

One of the companies he approached was Hoffman-Taff, Inc. of Springfield, Missouri, PPG's predecessor. After discussing the concept with Meehan in general terms, Hoffman-Taff expressed interest in its marketing possibilities and agreed to a disclosure in confidence. Immediately thereafter, Meehan disclosed his "Method and Apparatus" to Hoffman-Taff, including a written description, drawings and an analysis of potential markets for his concept. Hoffman-Taff decided to buy Meehan's concept.

In December, 1963, Hoffman-Taff invited Meehan to its offices in Springfield, Missouri for the purpose of making a business arrangement. Meehan attended the conference by himself; several principals, including general counsel, attended on behalf of Hoffman-Taff. Oral agreement was reached on the principal provisions of the present contract at that time.

Thereafter, the general counsel for Hoffman-Taff (Harry G. Neale of Neale, Newman, Bradshaw, Freeman & Neale in Springfield, Missouri) incorporated the oral understanding in the present agreement (App. 23a). The president and secretary (Harry G. Neale) of Hoffman-Taff executed the agreement on January 28, 1964 and mailed it to Meehan for his execution on January 30, 1964. At this time, no U.S. or foreign patent applications had been filed by Meehan; and no U.S. or foreign patents had been issued to Meehan.* (See Meehan Affidavit, App. 34a-39a)

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* The agreement refers to U.S. Patents 3,032,971 and 2,952,121 (App. 22a). These patents are owned by Phillips Petroleum Co. and are directed to the chemical mixture used in Meehan's "Method and Apparatus".

The Agreement

The sales agreement assigned all rights in Meehan's "Method and Apparatus" to PPG,*

> "the same to be held by PPG, its successors and assigns, for its own use and behoof as fully as the same would have been held and enjoyed by MEEHAN had this assignment and sale not been made." (App. 23a)

Meehan divested himself of all property rights in his trade secret. PPG became the owner.

The parties based the purchase price mainly upon PPG's *use* of the "Method and Apparatus" as set out in agreement paragraphs 2, 3 and 5. Except for $5000 Meehan received when the agreement was executed (Para. 2) and for $3000 PPG was obligated to pay each of the first two years of the agreement (Para. 5), the agreement provisions call for quarterly payments to Meehan based on a percentage of net sales by PPG "derived from selling or otherwise using said method and apparatus". (App. 23a)

The duration of the contract was totally controlled by PPG except for the first two years. First, PPG limited its money outlays to $11,000 for the first twenty-five months of the contract, after which it could discontinue use of the trade secret and walk away from the contract. (App. 26a, 27a). Second, under paragraph 11, if a third party subsequently conceived any method or apparatus not included in Meehan's disclosure which method or apparatus made Meehan's disclosure obsolete and unworkable and which PPG deemed it necessary to acquire or use, then PPG was completely relieved of all further

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* Hereafter, petitioner will refer only to PPG including quoted materials.

payments to Meehan after written notification by PPG. Third, PPG could simply manufacture and market Meehan's concept without applying for patent protection. In this event, the contract would terminate in ten years. (Para. 6, App. 27a)

Finally, in paragraph 6 if PPG decided to apply for, and did obtain, a patent or patents, then the assignment contract extended for "the life of any patent or patents" granted to PPG. Since PPG owned the patents, PPG could at any time terminate any patent's "life" by dedicating its patents to the public.

The PPG Patents

PPG acquired the right, but not the obligation, to file U.S. and foreign patent applications. PPG had sole judgment and sole discretion in making this determination under paragraph 8(a):

> "8. (a) HOFFMAN-TAFF shall immediately, at its own cost and expense, take such steps as may be necessary to determine whether the method and apparatus covered by this agreement may be patented, and if, in the sole judgment of HOFFMAN-TAFF and its attorneys, such method and apparatus may be patented, then HOFFMAN-TAFF shall file and prosecute with diligence an application for United States Letters Patent and such foreign patent applications as HOFFMAN-TAFF in its sole discretion may deem advisable. The terms of this agreement, as to payments to MEEHAN, are not dependent upon the issuance of any patent."

After its purchase of Meehan's disclosure, PPG filed an application for U.S. patent on April 8, 1964. In late 1965, PPG filed foreign patent applications in Canada and Great Britain. Each of the three patents issued to PPG as owner. The British patent expired on November 11,

1981. The U.S. patent issued on January 4, 1966 and expired on January 4, 1983. The Canadian patent issued on December 19, 1967 and expired on December 19, 1984.

PPG has failed to make its required payments to Meehan since January 4, 1983, the date of expiration of the U.S. patent. Meehan contends that the contract is not terminated until December 19, 1984, the date of expiration of the Canadian patent; and that the contract by its terms requires payment by PPG until December 19, 1984 for all domestic and foreign sales by PPG of product utilizing his "Method and Apparatus" whether such product is patented or unpatented.

REASONS FOR GRANTING THE WRIT

This case presents two questions worthy of review by this Court:

1. The court of appeals refused to follow the decision and reasoning of this Court in *Aronson* v. *Quick Point Pencil Company,* 440 U.S. 257 (1979) and the decision and reasoning of the Court of Appeals for the Second Circuit in *Warner-Lambert Pharmaceutical Company* v. *John Reynolds, Inc.,* 178 F.Supp. 655 (S.D. N.Y. 1959) aff'd 280 F.2d 197 (CA 2, 1960). Each of these decisions hold that a contract transferring rights in a trade secret for periodic payments is enforceable in perpetuity or for so long as the transferee continues to use the trade secret.

2. The court of Appeals has misapplied to the instant contract the holding of this Court in *Brulotte* v. *Thys Co.,* 379 U.S. 29 (1964) and the holdings of the Sixth Circuit and the Eleventh Circuit in *Boggild* v. *Kenner Products,* 776 F.2d 1315 (CA 6, 1985) and in *Pitney Bowes, Inc.* v. *Mestre,* 701 F.2d 1365 (CA 11, 1983). Each case involved an owner's transfer by license of patent rights or existing potential rights and the abusive exercise of leverage of those rights to extend the term of all patents involved beyond their life, the transferor always retaining title to said patents.

This Court recently confirmed that trade secret rights (governed by the states) and patent rights (governed by patent statute) exist side-by-side in intellectual property law; however, trade secret law and policy must give way if it conflicts with federal patent policy. This court pointed out that both policies have a common principal purpose,

namely to encourage early and complete disclosure of knowledge for the general benefit of the public (*Kewanee Oil Company* v. *Bicron Corporation et al.*, 416 U.S. 470, 1974).

The present case requires at least a showing that Meehan caused an interfering conflict with federal patent policy if Meehan's sale agreement is to be unenforceable. The decision below strained to connect Meehan with a violation of federal patent policy. It reasoned that the contract was entered into in "anticipation" of applying for patents (App. 6a, 8a-9a); that said "anticipation" is a sufficient *patent right* to invoke the rule of *Brulotte* (App. 9a); that seller Meehan *coerced* buyer PPG into accepting unenforceable provisions by exercising the abusive *leverage* of his trade secret (a part of which is his right to apply for a patent) (App. 9a); that Meehan expressly conveyed his right to apply for patents to PPG when he conveyed his unpatented disclosure (App. 7a); and that buyer PPG's application for and obtaining its patents after execution of the contract triggered the invocation of *Brulotte* and of federal patent policy (App. 7a).

Clearly, this contract was *not* entered into in "anticipation" of applying for patents. PPG extracted provisions from Meehan giving PPG alone the right to determine whether or not to file patent applications. PPG was not *required* to file as the lower court has erroneously stated (App. 9a). Under paragraph 8(a), PPG and its attorneys had "sole judgment" and "sole discretion" to determine whether or not to seek patent protection (App. 28a). Meehan had no right to impose a duty on PPG to file. By the conveyance, PPG became the owner of Meehan's unpatented disclosure. PPG satisfied its obligations whether or not it filed patent applications. Furthermore, contract payments are tied to the disclosed "Method and Apparatus", not to the scope of any patent (App. 23a-24a).

The court below states that "much more than mere trade secrets was conveyed under this contract" (App. 7a) pointing to the agreement words "invention" and "royalties", and the fact that payments for use were "variable" amounts and not a "set contract price" (App. 6a). The word "invention" refers specifically to the unpatented disclosure attached to the agreement, not to any *patent right*; invention is used in a generic sense, that is, subject matter not previously existing within Meehan's knowledge. The use of "royalties" or payments of variable amounts do not point unerringly to a patent contract; e.g. such terms are used commonly in oil or mineral contracts and were used in the trade secret contract in this Court's *Aronson* case. (p. 260)

The lower court erroneously concludes that coercion and leverage by Meehan is shown from the agreement provisions, particularly paragraphs 6,* 8(a), 8(b) and 10 (App. 9a). Each of these provisions is totally for the benefit of PPG, indicating the negotiating leverage of PPG as is most often the case when an individual tries to sell an unpatented disclosure to a corporation. Paragraph 6 sets out the limited duration of the contract, and paragraphs 8a, 8b and 10 obligate Meehan to assist PPG if PPG decides to file a patent application. Except for the payment provision paragraphs (3, 5, 7) and paragraph 17 (relating to default by PPG of its obligations), the remaining contract provisions are for the benefit of PPG and completely limit future action by Meehan in respect to his "Method and Apparatus".

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* The lower court incorrectly refers to paragraph 6 as having a "17" year provision. Paragraph 6 defines the term as "a period of time not to exceed the life of any patent or patents granted" to PPG.

The court below does not question that Meehan transferred to PPG his entire right, title and interest in his trade secret "Method and Apparatus". Such a transfer of ownership carries with it all common law and all statutory rights including the statutory right in PPG to file for a patent application whether expressly set out or not.*

The significant difference in our case (over *Brulotte* and its progeny) is that the *patent power* has always been owned by PPG, not Meehan who is being punished. The patent power has always been *controlled* by PPG. Only PPG has enjoyed the benefits of this control and power. If federal patent policy was implemented, only the actions of PPG caused such implementation.

Under its patent control and patent power, PPG had the right to exclude competitors, or to license competitors, under each of the three patents which it owned. Instead, PPG allowed each patent to run its course and to reap the benefits which each provided.

Every competitor of PPG can practice the invention of the U.S. patent after January 4, 1983. There is less burden on the public in the instant situation than there was in the license agreement in this Court's *Aronson* case where payments extended into perpetuity or so long as the licensee sold the product.

Furthermore, since PPG *controlled* each of the three patents by its *ownership* thereof, PPG has always had the power and right to terminate the *life* of each of the three patents involved by dedicating each to the public, and thereby avoiding further payment under the contract. PPG did not elect to take this course of action because it exacted benefits from the continuing existence of the patents.

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* 35 U.S.C. 118 entitled "Filing by other than inventor".

THE DECISION OF THE COURT BELOW IS CONTRARY TO THE DECISIONS OF THIS COURT AND OF THE SECOND CIRCUIT WHICH HOLD THAT A CONTRACT TRANSFERING RIGHTS IN A TRADE SECRET CAN BE ENFORCED BY THE TRANSFEROR FOR SO LONG AS THE TRANSFEREE USES THE TRADE SECRET

The court below incorrectly dismissed in one short paragraph the applicability of the latest case of this Court, *Aronson* v. *Quick Point Pencil Company,* 440 U.S. 257 (1979). The issue decided in *Aronson* is that periodic payments under a contract transferring rights in a trade secret are enforceable in perpetuity or for so long as the transferee continues to use the trade secret; and not whether federal patent law preempts state contract law or whether payments cease upon issuance of a patent as stated in the lower court's decision (App. 6a).

In *Aronson* v. *Quick Point,* Aronson disclosed a secret device in confidence to Quick Point, the device then being the subject of Aronson's pending patent application. Quick Point decided the disclosed device had commercial potential. Quick Point wanted the advantage of being first on the market, as did PPG herein.

Quick Point and Aronson entered into a licensing arrangement which was embodied in two separate documents. The first document was a license under Aronson's patent application for which Quick Point agreed to pay to Aronson a royalty of 5% of the selling price in return for the exclusive right to make and sell keyholders of the type shown in the application. The duration of this agreement had no precise date except that Quick Point had the right to cancel the agreement whenever "the volume of sales does not meet our expectations". (p. 259)

The second document was contemporaneous with the first. In this document Quick Point specifically bargained for rights in Aronson's trade secret and for the opportunity to be first in the marketplace, just as PPG did herein. However, Quick Point sought relief from the 5% provision in the license of the first document. If no patent issued in five years, then Quick Point agreed to a royalty of 2½% of sales for utilizing the trade secret and for the advantage of being first in the marketplace. No termination period was specified. Quick Point had the obligation to pay for "so long as you (Quick Point) continue to sell" the keyholders. (p. 259)

This Court saw two bargains - the first being contingent on patent issuance for its survival beyond five years - and the second being distinctly separate for the commercial utilization of Aronson's trade secret. Meehan's and PPG's bargain was for the transfer of rights in a trade secret as in Aronson's second document. Meehan had no patent application, so provisions allocating percentages as in Aronson's first document would be meaningless. PPG acquired complete control over Meehan's trade secret.

While Aronson's second document purported to license a trade secret, which is something less than the assignment made by Meehan, both the Aronson agreement and the Meehan-PPG agreement effected the transfer of rights in a trade secret. This Court recognized such agreements as the domain of state law:

> "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable, the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law." (p. 262)

Accordingly, the decision and the reasoning of the Court in Aronson controls the instant assignment contract. In fact, the Meehan-PPG contract is enforceable for even stronger reasons than in Aronson. Payments in Aronson's agreement extend in perpetuity; payments in the instant assignment extend for a time certain, which time is only determinable by the buyer PPG. Neither Aronson's second document nor Meehan's assignment transferred any rights in a patent or a patent application. Both Quick Point and PPG bargained for and received the opportunity to be first in the marketplace.

In sustaining the enforceability of Aronson's agreement requiring payments in perpetuity on the trade secret, this Court remarked (p. 262),

> "Assuming arguendo that the initial letter and the commitment to pay a 5% royalty was subject to federal patent law, the provision relating to the 2½% royalty was explicitly independent of federal law."

and then further stated,

> "Enforcement of these contractual obligations, freely undertaken in arm's length negotiations and with *no fixed reliance* on a *patent* or a *probable patent grant*, will
>
> > 'encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable invention.'"
>
> * * *
>
> "The device which is the subject of this contract ceased to have any secrecy as soon as it was first marketed, yet when the contract was negotiated the inventiveness and novelty were sufficiently apparent to induce an experienced novelty manufacturer to

> agree to pay for the opportunity to be first in the market. *Federal patent law* is not a barrier to such a contract." (p. 266) (emphasis added)

Just as in *Aronson,* the enforcement of the present assignment does not deprive the consuming public of the benefits of the unrestricted exploitation by others. Anyone can copy the patented invention of PPG after the date its patent expired, January 4, 1983. The assignment merely requires PPG to pay the full purchase price consideration which it promised to pay. As this Court stated in *Aronson* (pg. 264):

> "Enforcement of Quick Point's agreement, however, does not prevent anyone from copying the keyholder. It merely requires Quick Point to pay the consideration which it promised in return for the use of a novel device which enabled it to preempt the market."

Even before *Aronson,* courts have supported the present contention of Meehan. In the "Listerine" case (*Warner-Lambert Pharmaceutical Company* v. *John Reynolds, Inc.,* 178 F.Supp. 655 (S.D. N.Y. 1959, aff'd 280 F.2d 197 (CA 2, 1960), the assignor sold the trade secret formula used in the preparation of "Listerine" mouthwash for a monthly royalty based on sales and to be paid assignor or his heirs "for each and every gross of said Listerine hereafter sold" by assignee. In 1959 assignee's successor sought to extricate itself from the contract just as PPG herein.

The court found the agreement terms to be plain and unambiguous and enforced the assignment for so long as assignee's successor sold product embodying the trade secret. Similiarly, PPG should be required to pay the remainder of its promised purchase price.

THE COURT BELOW ERRONEOUSLY APPLIED THIS COURT'S BRULOTTE DECISION AND DECISIONS OF THE SIXTH AND ELEVENTH CIRCUITS IN HOLDING UNENFORCEABLE A CONTRACT ASSIGNING ALL RIGHTS IN A TRADE SECRET

The court below relied upon *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), *Pitney Bowes, Inc.* v. *Mestre,* 701 F.2d 1365 (CA 11, 1983) and *Boggild* v. *Kenner Products,* 776 F.2d 1315 (CA6, 1985) in precluding Meehan from enforcing the assignment agreement for the contested period of time January 3, 1983 through December 19, 1984. The three cases are factually similar except for the nature of the rights transferred. The *owner* of patents transferred existing patent rights in *Brulotte*; the owner of patent applications transferred potential patent rights in *Pitney Bowes;* while in *Boggild* the agreement first required the licensor to apply for patents and then transferred those potential patent rights to licensee. Each transferor retained ownership and control of the patent power in each case. In contrast herein, PPG owned the unpatented disclosure by the contract of sale; only PPG had the right to determine whether or not to file for patents; only PPG had the right to determine the duration of the contract; and in the unpatented disclosure, any rights in the nature of patent rights are completely inchoate at best.

The Decision in Brulotte Specifically Excludes the Sale of an Unpatented Asset for Long-Term Payments from its Holding

In the *Brulotte* case, the licensor owned several patents whose inventions were incorporated in hop picking machines sold to licensees. Each licensee paid a flat sum for each machine, and each licensee was granted a *use license* under the patent rights to use the machine

for a royalty. Each of the seven patents had expired in 1957, but the patent license provided for payments by each licensee for use of the patented machines beyond the termination date of all of the patents. The court held the patent licenses unenforceable beyond the termination date of the patents where the leverage of the patents was used to extract payments in the post-expiration period.

This Court specifically distinguished the Meehan-PPG factual situation in which the sale of an unpatented asset is purchased by periodic payments over a period of time. While this Court pointed out that a patent owner can not use the leverage of his patent to force the licensee to accept license provisions which project royalty payments beyond the life of the owner's patents, the Court stated that in contrast (pg. 32),

> "The sale • • • of unpatented machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations."

Herein, PPG agreed to deferred payments based on use of the trade secret (not patent rights), and in return acquired ownership of Meehan's unpatented disclosure together with the right at its sole option and "sole discretion" to file for domestic and foreign patents. The contract required periodic variable installment payments (rather than a flat sum purchase price) based on PPG's "net sales" realized from the use of Meehan's unpatented trade secret.

The restricted holding in *Brulotte* is directed to the *patent owner* and is intended to limit his benefits to the period of life of the patent:

> "A *patent* empowers *the owner* to exact royalties as high as he can negotiate with the leverage of that

> monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of the unpatented ones. • • • The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain." (Pg. 33) (emphasis added)

By this language, this Court never intended to punish a *seller* of an unpatented disclosure; nor did it intend to relieve the *buyer* of its obligation to complete the purchase price of such unpatented asset where no *leverage* of a *patent right* existed in the seller.

The Lower Court Erred in Concluding that the Sales Agreement Transferred from Meehan to PPG "Patent Rights" within the Meaning of the Brulotte Decision

A patent right is a governmental grant to an inventor of the right to exclude third parties from making, using or selling his patented invention (35 U.S.C. 154). No such right, and no such potential right, was conveyed by Meehan to PPG in the assignment.

The court below correctly stated that the contract expressly transferred to PPG the right to apply for patents. The transfer of ownership in the disclosure included this right whether expressed or not. The court incorrectly stated (fn App. 8a) that "Without an agreement like the present one, the manufacturer would have no right to obtain patent protection" (See 35 U.S.C. 118 which provides for "Filing by Other than Inventor", namely, by the owner of the disclosure when the usual applicant cannot be found or refuses to cooperate).

The granting of a *right to later file a patent application* (and Meehan's assumption of the later obligation to perfect title in PPG) is not the grant of a patent right as defined in the statute above, nor is such right to later file the kind of patent right to which the *Brulotte* case refers. Such a grant permanently extinguishes any possibility that Meehan will ever become owner of any patent rights in his trade secret. Under the contract, only PPG could make the determination to file or not to file. Meehan retained no such right. The contract specified, paragraph 8(a), that PPG shall:

> "take such steps as may be necessary to determine whether the method and apparatus covered by this agreement may be patented, and if, in the *sole judgment* of PPG and its attorneys, such method and apparatus may be patented, then PPG shall file and prosecute with diligence an application for United States Letters Patent and such foreign patent applications as PPG in its *sole discretion* may deem advisable." (emphasis ours)

The Narrow Rule of Brulotte is Inapplicable to the Assignment of an Unpatented Trade Secret

The agreement in *Brulotte* was a license of *patent rights* in twelve existing Letters Patent by the *owner* of those patents. The present agreement is a sales contract of an *unpatented* trade secret. No *patent rights* were transferred by the present assignment. At the time of the assignment, no patent rights existed covering the trade secret. The seller Meehan retained no property right in the trade secret after the contract was executed. In *Brulotte,* the licensor owned and controlled the licensed patents.

In addition to being restricted to a patent license agreement, the admonitions of the *Brulotte* case are directed to

the *patent owner*. PPG has always been the patent owner. Meehan has never been a patent owner. Meehan was the *seller* of an unpatented asset. PPG was the *buyer* of that unpatented asset who *later* elected in its "sole judgment" and its "sole discretion" to file applications for domestic and foreign patents. (Agreement, Para. 8(a), App. 28a)

Brulotte is further distinguished in that the licensor-patent owner determined how long the agreement was to remain in effect by specific provisions in the executed contract. In the present case, the duration of the agreement was completely determined only by the buyer and patent owner PPG. Certainly Meehan did not cause any extension in purchase price payments due him by PPG. The instant assignment does not require PPG to file for patents; PPG had sole discretion to file or not to file. PPG freely caused the extension in its own economic self-interest.

The decision in *Brulotte* is directed to, and circumscribes, the actions of the patent owner, i.e. the patent owner cannot exert the coercion or leverage of his patents to force a licensee to accept contract terms which are beyond the bounds of the patent rights granted by the government to the patent owner. Herein PPG is, and always has been, the patent owner. Meehan is not the patent owner; he has never been a patent owner; he has never licensed or sold a patent or a patent right. Meehan did not, and could not exert leverage or coercion upon PPG using patents which he has never owned.

In *Brulotte* the patent owner sought to extend and enhance his benefits beyond the life of his patents. Herein, patent owner PPG seeks to extinguish and diminish his

payment obligations by attributing the misuse of *Brulotte* to a seller (who never owned a patent) by allegations of unlawful contract extension which extension was effected by patent owner PPG, not Meehan.

A two tier royalty is not required when the sale contract transfers only ownership rights in a trade secret. Respondent's predecessor's counsel drafted the present agreement after the 1963 negotiations (App. 37a). PPG extracted from Meehan the rights to limit the contract duration so as to also limit its payment obligations in accordance with the commercial value realized by PPG's use of the disclosure. Meehan gambled that his disclosure would be sufficiently commercially viable that PPG would decide to keep the agreement in effect.

The parties tried to measure the worth of the trade secret by the contemplated future speculative value of the disclosure in the marketplace. They knew a considerable period would pass before the "Method and Apparatus" would penetrate the market. In fact, annual sales did not reach one million dollars until 1980 (App. 40a). The reference to the "life of any patent or patents" in agreement paragraph 6 merely measures the maximum potential commercial value of the disclosure. Predecessor counsel included the provision for assurance that PPG would enjoy any patent monopoly it obtained completely to its end. Just as in *Aronson*, the "two tier" royalty contention is inapplicable to the simple sale of a written document containing a trade secret.

THE LOWER COURT DECISION DEFEATS THE POLICY OF ENCOURAGING EARLY AND COMPLETE DISCLOSURE OF TRADE SECRETS FOR THE BENEFIT OF THE PUBLIC AT LARGE

The law relating to the sale of an unpatented disclosure should contain some ordinary logic which the common layman can understand. The lower court's decision applies federal patent policy to the sale of an unpatented disclosure. The decision imputed the actions of the patent owner to the vendor of the trade secret and relieved the patent owner from paying its agreed purchase price.

Assume Meehan sold an unpatented disclosure to PPG for the sum of $50,000, payable $2,000 each year for twenty-five years. The sales contract does not mention the right to file for patents. Under 35 USC 118, PPG files a patent application (as it has a right to do as the disclosure owner), and a patent issues to PPG at the end of the twentieth year. Is PPG relieved of the last five payments under the contract? Which party has triggered the application, if any, of federal patent policy?

The rationale of the decision of the court below relieves PPG in the above situation. The decision thwarts the principal purpose of trade secret policy and of patent policy, namely, to encourage complete and early disclosure for the benefit of the public. If the decision of the court below stands, then certainly every contract transferring trade secret rights should include severe restrictions limiting the degree of public disclosure only to that necessary to practice the art of the trade secret.

The *Brulotte* doctrine should be restricted to the situation in which *coercion* is exerted by an *owner* of patent rights in *leveraging* those rights to extract contract provisions extending beyond the patent grant; and that doctrine should not be extended to the simple sale of an unpatented disclosure as herein.

CONCLUSION

For the above reasons, a writ of certiorari should issue to review the judgment and opinion of the Seventh Circuit.

Respectfully submitted,

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